ENTERPRISE FUNDS

Airport Operating Funds

Operating funds for the Airport Department consist of the following: the Airport Customer Facility and Transportation Fee Fund, the Airport Revenue Fund, the Airport Maintenance and Operation (M&O) Fund and the Airport Surplus Revenue Fund. For this presentation the Airport Fiscal Agent Fund is shown in the second table below.

Airport Operating Funds

($000s)

	Budget	Actual	Variance	Percent Variance
Revenue	$ 206,595	$ 184,619	$ (21,976)	(10.6%)
Expenditure	223,446	193,473	29,973	13.4%
Fund Balance (est.)*	19,512	40,501	20,989	107.6%

The variance in revenues is mainly the result of anticipated transfers that were unnecessary due to expenditure savings in both operating and capital programs. Excluding the variances caused by transfers ($21.0 million), actual revenues in these four funds ended the year just $969,000 less than the $92.9 million budgeted. Of that amount, $386,000 is related to Customer Facility and Transportation fee contributions from the rental car companies that were not necessary due to expenditure savings. Airport revenues from landing fees, terminal rentals, parking and roadway, general and non-aviation revenues and concessions ended the year within 1% of the budget, short just $583,000 of the $88.1 million budgeted. Transfers to other Airport funds make up the remaining variance, which were not necessary due to expenditure savings and careful use of reserves. Transfers not necessary included $18.1 million to the Airport Maintenance and Operating Fund and $2.9 million in transfers from the Airport Revenue Fund to the Airport Surplus Revenue Fund.

The expenditure variance shown above is the combination of savings, as well as transfers that were unnecessary. In November 2004, the Airport developed a cost management plan that identified approximately $4.0 million in departmental and interdepartmental savings targets. In 2004-2005, operating budget savings actually totaled $6.8 million. Targeted savings were carefully determined to mitigate direct service impacts to our customers. For example, savings included the limitation of bus service hours to both the rental car and parking lots. With careful management of service response and route timing, few customers had to wait more than 4-5 minutes for a bus. In addition, the Airport continued to carefully manage supplies, services, training, utilities and lease costs all of which ended the year with greater than targeted savings. Personal service savings, including $147,000 in overtime savings, were maintained by keeping

ENTERPRISE FUNDS (CONT'D.)

Airport Operating Funds (Cont'd.)

approximately 33 positions vacant during the year and hiring only in critical service areas. Overall personal service savings for the year were over $1.8 million. These savings combined with the conservative use of reserves, is reflected in the operating expenditure variance.

The Airport's expenditure variance also reflects a significant reduction to interfund transfers. As noted in the revenue section above, successful expenditure savings resulted in a decreased need to transfer funds from the Airport Revenue Fund to the Airport Maintenance and Operation Fund and Airport Surplus Revenue Fund ($21.0 million). Capital project savings decreased the need to transfer from the Airport Surplus Revenue Fund ($1.5 million) to the Airport Renewal & Replacement Fund. Finally, the Airport's transfer to the General Fund was reduced by $700,000, reflecting overtime and personnel savings for Airport police services.

The fund balance estimate variance of $21.0 million was the combined result of factors discussed above, including lower than estimated transfers and expenditure and reserve savings in the various Airport operating funds.

Airport Fiscal Agent Fund

($000s)

	Budget	Actual	Variance	Percent Variance
Revenue	$ 126,581	$ 19,945	$ (106,636)	(84.2%)
Expenditure	127,588	30,591	96,997	76.0%
Fund Balance (est.)*	62,641 *	53,001	(9,640)	(15.4%)

Performance of the Airport Fiscal Agent Fund is summarized in the chart above and reflects adjustments in the schedule of Airport capital projects and associated financing. In 2004-2005 a total of $108.0 million in bond proceeds had been budgeted to fund construction projects, which would support Airport compliance with new security mandates. Budgeted proceeds would then be transferred to the Airport Revenue Bond Improvement Fund for expenditure. Funding from a previous issuance at the end of 2003-2004 proved sufficient to accommodate project needs in 2004-2005. As a result, no additional bonds were issued.

ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund

The General Purpose Parking Fund accounts for the operations of City parking facilities and parking meters. Financing and capital construction of parking facilities are also accounted for within this fund.

General Purpose Parking Fund

($000s)

		Budget		Actual		Variance	Percent Variance
Revenue	$	9,618	$	9,949	$	331	3.4%
Expenditure		20,997		13,579		7,419	35.3%
Fund Balance (est.)*		12,341	*	16,091		3,750	30.4%

The positive revenue variance of $331,000 is due to higher than anticipated revenues collected in City parking lots ($239,000 variance) and parking meters ($167,000), which were partially offset by lower than budgeted interest and miscellaneous revenue collections ($75,000 variance). While 2004-2005 revenues exceeded deliberately conservative estimates, the economic slowdown combined with high office vacancy rates in the downtown have continued to impact transient and monthly parking revenues. Total revenues were $159,000 (1.6%) or slightly lower than 2003-2004 actual receipts, which were themselves well below highs collected a few years earlier.

Savings in the General Purpose Parking Fund for 2004-2005 resulted in a $7.4 million positive variance from budgeted program expenditures. A large portion of the variance is due to the timing of the $6.8 million loan to the Redevelopment Agency, which forms part of the Agency's budget balancing strategy, and was approved by Council in April 2005. Of the $6.8 million that will be loaned to the Agency, only $3.4 million was transferred in 2004-2005 with the remainder expected to be transferred in 2005-2006. In addition, a portion of the variance is due to expenditure savings in the Capital Program ($2.2 million), of which $1.1 million has been or will be recommended for rebudget to complete capital improvements with the remainder returned to fund balance to support other parking program priorities and projects.

Most of the remainder of the expenditure variance is due to savings in non-personal/equipment costs for the Department of Transportation, and to lower than estimated transfers. Non-Personal/Equipment expenses were $1.2 million (17.4%) below budget due to contractual services savings and because several programs were not implemented such as Valet/Stack

ENTERPRISE FUNDS (CONT'D.)

General Purpose Parking Fund (Cont'd.)

Parking and the Car/Vanpool Program. Transfers were $347,000 (35.5%) lower than budgeted, due to variance in the amount transferred to the Convention and Cultural Affairs Fund.

This transfer is based on net surplus revenue received at the Convention Center Garage. In 2004-2005, weaker than anticipated revenues depressed the transfer amount below budget by approximately $184,000 (from $952,000 to $768,000). However, as a result of an inadvertent error, a portion of these net revenues ($148,000) was not transferred to the Conventions and Cultural Affairs fund before the financial books closed on the 2004-2005 fiscal year. To correct the error, this document recommends a one-time increase in the transfer amount of $148,000.

The positive variance of $3.8 million in the ending fund balance reflects lower than estimated expenditures and transfers due primarily to reasons discussed above ($3.2 million) combined with somewhat higher than estimated revenues ($540,000). Of this amount, $393,000 is recommended for rebudget to support the completion of current capital projects, while $148,000 is recommended to complete the transfer of net Convention Center Garage revenues to the Convention and Cultural Affairs Fund. In addition, some of this additional fund balance is recommended to be placed in reserves including a $750,000 augmentation to the Reserve for Future Parking Facilities, and a $792,000 augmentation for the Reserve for the Parking Management Plan, which was required to be reduced during the development of the 2005-2006 Budget to accommodate conservative revenue and expenditure estimates. An augmentation of $1.5 million to the Parking Guidance System project is also recommended to advance Phase II of this project that is currently programmed in 2006-2007. This project will provide motorists with real time parking information, direct them to the nearest parking facility with available parking spaces, and decrease traffic circulation in the downtown.

ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds

The San José/Santa Clara Treatment Plant Operating Funds are used for the operation and maintenance of the sanitary sewer system and the regional Water Pollution Control Plant (WPCP). Funds included in this category are the San José/Santa Clara Treatment Plant Operating Fund, San José/Santa Clara Treatment Plant Income Fund, Sewage Treatment Plant Connection Fee Fund, and the Sewer Service and Use Charge Fund.

San José/Santa Clara Treatment Plant Operating Funds

($000s)

	Budget		Actual	Variance	Percent Variance
Revenue	$ 140,255		$ 136,060	$ (4,195)	(3.0%)
Expenditure	163,885		154,749	$ 9,136	5.6%
Fund Balance (est.)*	41,772	*	46,448	$ 4,676	11.2%

Year-end revenues ended the year with a $4.2 million negative variance due to lower than budgeted revenues in the Sewage Treatment Plant Connection Fee Fund ($5.5 million) and San José/Santa Clara Treatment Plant Operating Fund ($1.5 million), offset by higher than budgeted revenue collections in the San José/Santa Clara Treatment Plant Income Fund ($2.2 million) and the Sewer Service and Use Charge Fund ($600,000). In the Sewage Treatment Plant Connection Fee Fund, actual connection fee receipts ended the year below budgeted levels due to lower than anticipated connection fee payments related to the Metcalf Energy Center which are now expected to be received over a ten year period and lower than budgeted receipts of a loan from the Anti-Tobacco Master Settlement Agreement Revenue Fund. Estimates had assumed a complete payment would occur in 2004-2005. Revenues in the San José-Santa Clara Treatment Plant Operating Fund ended the year below estimated levels due to lower than budgeted contributions from tributary agencies. These contributions reimburse actual expenditures and this negative variance is more than offset by expenditure savings described below. In the Sewer Service and Use Charge Fund, revenues ended the year above budgeted levels due to higher than budgeted sewer collections, primarily in the industrial sector. Revenues in the San José/Santa Clara Treatment Plant Income Fund ended the year above budgeted levels due to a settlement from PG&E for land at the Water Pollution Control Plant.

Overall, year-end expenditure savings of $9.1 million was generated, mainly resulting from savings in the San José/Santa Clara Treatment Plant Operating Fund ($3.6 million), Sewage Treatment Plant Connection Fee Fund ($2.3 million), and in the Sewer Service and Use Charge

ENTERPRISE FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Operating Funds (Cont'd.)

Fund ($3.2 million). The majority of savings in the San José/Santa Clara Treatment Plant Operating Fund appeared in the Environmental Services Department's appropriations ($3.2 million). Of these savings, $2.3 million was personal services savings due to vacancy savings and $800,000 was attributed to miscellaneous non-personal/equipment savings. Savings in the Sewage Treatment Plant Connection Fee Fund ($2.3 million) resulted from lower than expected loan payments to the Anti-Tobacco Master Settlement Agreement Revenue Fund. The majority of savings in the Sewer Service and Use Charge Fund can be attributed to vacancy savings in the Department of Transportation ($1.1 million), major litigation costs ($600,000), savings related to sanitary sewer claims ($545,000), and vacancy savings in the Public Works Department ($470,000). Outstanding sanitary sewer claims are expected to continue into 2005-2006. Therefore, a rebudget of unexpended sanitary sewer claims funding ($545,000) in the Sewer Service and Use Charge Fund is recommended in this document.

The actual year-end fund balance exceeded estimates by $4.7 million. This was primarily the result of higher than anticipated fund balance in San José/Santa Clara Treatment Plant Income Fund ($2.2 million) due to higher than estimated revenues described above; higher than anticipated fund balance in the San José/Santa Clara Treatment Plant Operating Fund ($1.5 million) due to higher than anticipated expenditure savings; and higher than anticipated fund balance in the Sewer Service and Use Charge Fund ($1.5 million) due to higher than estimated revenues and expenditure savings described above. The fund balance in the Sewage Treatment Plant Connection Fee Fund ended the year lower ($427,000) than estimated levels due to lower than anticipated connection fees related to the Metcalf Energy Center.

ENTERPRISE FUNDS (CONT'D.)

Water Utility Fund

The Water Utility Fund supports the operations of the Municipal Water System, which provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. This fund is financed through user charges.

Water Utility Fund

($000s)

	Budget		Actual	Variance	Percent Variance
Revenue	$ 20,369		$ 18,836	$ (1,533)	(7.5%)
Expenditure	22,822		20,643	$ 2,179	9.5%
Fund Balance (est.)*	5,586	*	5,507	$ (79)	(1.4%)

The negative revenue variance ($1,533,000) is the result of lower than budgeted Water Sales collections ($1,526,000) and interest earnings ($7,000). Water sales ended the year below expectations due to a wetter than usual rain season.

Expenditure savings ($2.2 million) primarily resulted in the Environmental Services Department Non-Personal/Equipment appropriation ($2.0 million). The majority of this savings was due to lower than budgeted water purchases, savings in electricity, and other non-personal/equipment savings. In addition, vacancies in the Environmental Services Department resulted in expenditure savings of $190,000.

The negative ending fund balance variance ($79,000) resulted from lower than estimated revenues ($1.5 million), offset by expenditure savings ($1.4 million). Despite this negative variance, sufficient ending fund balance is available.